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Department of Corrections  
Correctional Industries

Audit Report

Issued: January 29, 2004  
Fiscal Year: 2002 and 2003



## EXECUTIVE SUMMARY LEGISLATIVE AUDITS

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### IDAHO DEPARTMENT OF CORRECTION CORRECTIONAL INDUSTRIES

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**PURPOSE AND SCOPE.** We have audited the financial statements of the Department of Correction, Correctional Industries for the fiscal years ended June 30, 2002 and 2003, in accordance with auditing standards generally accepted in the United States of America. The purpose of our audit is to determine if Correctional Industries' financial statements are materially accurate and reliable, and that Correctional Industries complied with laws and regulations affecting fiscal operations.

**CONCLUSION.** We conclude that Correctional Industries' financial statements are materially accurate and reliable, and fiscal operations materially comply with related laws and regulations. As a result, we issued an unqualified opinion on Correctional Industries' financial statements.

**FINDINGS AND RECOMMENDATIONS.** There are three findings and recommendations in this report, as explained below:

**Finding #1.** Correctional Industries does not follow its policy for collecting outstanding accounts receivable.

Correctional Industries' policy requires contacting customers with invoices 60 days or older, but according to members of its staff, this has not happened on a regular basis. Also, monthly statements are not sent to customers. Accounts receivable should be regularly monitored to help ensure they are collected in a timely manner. The risk of financial loss increases the longer accounts remain outstanding and the opportunity for investment earnings is reduced. Accounts receivable balances older than 60 days at fiscal year-end 2002 and 2003 were \$238,441 and \$230,716, respectively. Corresponding amounts of \$182,955 and \$112,066, were more than 90 days old. Some of these amounts may be related to Correctional Industries not following its policy for collecting outstanding accounts receivable.

**We recommend** Correctional Industries pursue and collect accounts receivable by monitoring accounts receivable to initiate follow-up in a timely manner, adhering to the policy for follow-up and collection, and considering sending monthly statements to customers. Furthermore, **we recommend** that Correctional Industries document compliance with this policy.

**Finding #2. Correctional Industries has no policy or support for allowances and other reserves.**

Correctional Industries maintained a \$15,000 allowance for doubtful accounts receivable, a \$46,000 allowance for obsolete materials inventory, and an \$85,020 reserve for warranty expense. However, Correctional Industries could provide no basis for these amounts or policy governing the establishment and periodic review of allowances and reserves. Subsequent to the audit period, Correctional Industries determined the correct allowance for obsolete materials inventory was \$205,000 and added a one-time \$159,000 write-down of inventory value for fiscal year 2003. Correctional Industries is also analyzing other allowance and reserve amounts to determine if they are reasonable. A formal policy regarding the establishment and periodic review of allowance and reserve amounts helps ensure that there is a reasonable basis for the estimates.

**We recommend** that Correctional Industries complete a policy for determining all allowance and reserve amounts and for reviewing these amounts at least annually.

**Finding #3. Some individual shop financial information is inaccurate due to accounting errors and lack of review.**

Correctional Industries maintains financial information for each shop. Some accounting entries and transactions for the shops were not monitored or reviewed closely enough. Following are some examples:

- There was no documented support to explain a \$23,100 and a \$37,600 adjustment for cattle inventory.
- Hay received and used was not properly recorded, and caused monthly shop financial statements to be inaccurate and misleading. However, year-end combined financial statements were accurate.
- There was no documented basis for annual administrative overhead allocations of about \$1.5 million between shops. However, the allocations netted to zero in Correctional Industries year-end combined financial statements.

The basis for some adjustments and unreconciled amounts were later determined. However, Correctional Industries should provide better monitoring and documentation explaining accounting entries, adjustments, and allocations.

**We recommend** that Correctional Industries monitor and review accounting entries and transactions more closely to reduce errors and increase the accuracy of financial information, and fully document all transactions for estimates and allocations.

**PRIOR FINDINGS AND RECOMMENDATIONS.** The prior audit report covered fiscal year 2000 and 2001, and included two findings and recommendations.

**Prior Finding #1.** Correctional Industries' policy established to collect outstanding accounts receivable was not being followed.

Accounts receivable balances more than 60 days old at fiscal year-end 2000 and 2001 were \$260,463 and \$246,980, respectively. Some of these outstanding balances may exist because Correctional Industries does not always follow its policy that requires contacting customers with invoices older than 60 days.

**We recommended** that Correctional Industries collect outstanding accounts in accordance with its established policies. Correctional Industries initially made efforts to collect past due accounts and reduced outstanding receivables older than 60 days to about \$165,000. However, Correctional Industries did not consistently comply with its policy, and receivables older than 60 days increased to \$230,176 at the end of fiscal year 2003. As a result, this finding is repeated in this report. **CLOSED – Repeated in Finding #1.**

**Prior Finding #2.** Amounts due vendors were not all paid within 60 days, in accordance with Idaho Code.

Accounts payable at fiscal year-end 2000 and 2001, totaling \$84,711 and \$14,198, respectively, were over 60 days old. These amounts included \$67,874 (80%) and \$13,215 (93%), respectively, that were over 90 days old. Idaho Code, Section 67-2302(2) requires prompt payment for goods and services by stating "all bills shall be accepted, certified for payment, and paid within sixty (60) calendar days of receipt of billing."

**We recommended** that Correctional Industries improve monitoring of accounts payable in order to pay its bills in a timely manner in accordance with Idaho Code. New procedures were implemented to comply with the Idaho Code requirement to pay amounts owed vendors in a timely manner. **CLOSED**

**AGENCY RESPONSE.** Correctional Industries staff reviewed the report and is in general agreement with its contents. The full response is included in the Findings and Recommendation section of the report.

**FINANCIAL SUMMARY.** Correctional Industries is funded entirely by revenue generated from the sale of merchandise and some inmate labor services. Correctional Industries does not require a legislative appropriation for expenses of its operation. Some merchandise currently produced and sold by Correctional Industries includes office furniture, license plates, and signs.

The following schedule summarizes the financial operations of Correctional Industries for fiscal years 2002 and 2003.

	<u>FY 2002</u>	<u>FY 2003</u>
<u>Statement of Net Assets</u>		
ASSETS		
Current Assets	\$3,782,500	\$3,398,542
Capital Assets	<u>1,466,552</u>	<u>1,018,132</u>
Total Assets	<u>\$5,249,052</u>	<u>\$4,416,674</u>
LIABILITIES		
Current Liabilities	\$466,362	\$462,333
Non-Current Liabilities	<u>12,405</u>	<u>24,576</u>
Total Liabilities	<u>\$478,767</u>	<u>\$486,909</u>
NET ASSETS		
Invested in Capital Assets	\$1,466,552	\$1,018,132
Unrestricted	<u>3,303,733</u>	<u>2,911,633</u>
Total Net Assets	<u><u>\$4,770,285</u></u>	<u><u>\$3,929,765</u></u>
<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>		
OPERATING REVENUES AND EXPENSES		
Sales	\$5,234,199	\$4,507,739
Operating Expenses	<u>4,963,912</u>	<u>5,053,954</u>
Operating Income (Loss)	\$270,287	(\$546,215)
NON-OPERATING REVENUES		
Interest Revenue	<u>74,062</u>	<u>63,780</u>
NET INCOME (LOSS) BEFORE DISCONTINUED OPERATIONS	\$344,349	(\$482,435)
DISCONTINUED OPERATIONS		
Loss from Operations of Discontinued Farm and Dairy Operations (Including \$85,599 Loss from Disposal of Farm and Dairy Assets for the Year Ended June 30, 2003)	<u>(217,013)</u>	<u>(312,687)</u>
NET INCOME (LOSS) BEFORE SPECIAL ITEMS	\$127,336	(\$795,122)
SPECIAL ITEMS		
Education Program Expenses	<u>(81,785)</u>	<u>(45,398)</u>
INCREASE (DECREASE) IN NET ASSETS	\$45,551	(\$840,520)
BEGINNING NET ASSETS (Restated for Fiscal Year 2002)	<u>4,724,734</u>	<u>4,770,285</u>
ENDING NET ASSETS	<u><u>\$4,770,285</u></u>	<u><u>\$3,929,765</u></u>

**OTHER ISSUES.** In addition to the findings and recommendations, we discussed other, less important issues which, if changed, would improve internal control, ensure compliance, or improve efficiency.

This report is intended solely for the information and use of the Department of Correction, Correctional Industries and the Idaho Legislature and is not intended to be, and should not be, used by anyone other than these specified parties.

We appreciate the cooperation and assistance given us by Correctional Industries' administrator, Lynn McAuley, and her staff.

**QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:**  
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